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IN THE

Supreme Court of the United States

OCTOBER TERM, 1963

No. 1053

THE UNITED STATES TIME CORPORATION,

Petitioner,

v.

HAMILTON WATCH COMPANY,

Respondent.

PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT, WITH APPENDIX.

JOHN HOXIE,
Attorney for Petitioner,
30 Broad Street,
New York, N. Y. (10004).

249 Press of Fremont Payne, Inc., 80 Washington St., N. Y.—BOwling Green 9-8153

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PETITION FOR WRIT OF CERTIORARI

To the Honorable the Chief Justice and Associate Justices of the Supreme Court of the United States:

Petitioner, The United States Time Corporation, respectfully asks that a writ of certiorari be granted to review a decision of the Court of Appeals for the Second Circuit entered herein on January 31, 1964. (Appendix hereto, pp. 1a-2a).

That decision affirmed the denial by the District Court (Connecticut) of petitioner's motion for an injunction restraining respondent's further prosecution of a patent infringement action in the District of Maryland against a retail customer of petitioner on the same three patents, and involving the same electric watch, that are the subject of the present action in Connecticut between petitioner, the manufacturer of the accused watch, and respondent, the owner of the patents.

Should the writ issue, the matter to be considered would be the judicial administration of the conduct of multiple litigation of identical issues in different United States

courts, and the criteria that should govern the lower courts in that administrative task, both generally and in the now confused area of the patent law involving needless "customer suits" brought by patent owners as a forum-shopping device. A central subject would be the effectuation of this Court's decisions in *Kerostest Mfg. Co.* v. *C-O-Two Fire Equipment Co.*, 342 U. S. 180 (1952) and *Kessler* v. *Eldred*, 206 U. S. 285 (1907), and the resolution of a direct conflict with two district court decisions in another circuit.

The Opinions Below

Court of Appeals, Second Circuit, January 31, 1964, reported in 327 F. 2d 338; Appendix hereto at pages 2a-3a.

United States District Court, District of Connecticut, unreported. Oral ruling, Appendix hereto at page 4a. Order on petition for rehearing, Appendix hereto at page 5a. Findings and Conclusions, Appendix hereto at pages 6a-11a.

Jurisdiction

This action arose under the patent laws of the United States, and was initiated under the Federal Declaratory Judgments Act, Title 28, U. S. Code, § 2201. This Court's jurisdiction is invoked under Section 1254(1) of Title 28, U. S. Code.

Question Presented

In deciding whether or not to restrain a claimant (e.g., respondent patent owner) from concurrently prosecuting a parallel action against another party involving the same issues in a coordinate court (e.g., respondent's patent action against a retailer in another district), should the court give regard and even dominance to the interest of the

courts and the public in the conservation of judicial resources and in achieving a single comprehensive disposition of those issues, as factors supporting the restraint, where (a) the other action is not needed to protect the claimant's interest and had an ulterior purpose, and (b) the instant action (e.g., one between patent owner and manufacturer) can alone dispose of the controversy comprehensively; or should the other action be permitted to proceed because it was earlier brought, is an action the claimant had a right to commence, and its concurrent prosecution would do no injustice to the party to the comprehensive action (petitioner here) who seeks the restraint?

Statement of Case*

There are now pending in two different district courts, Connecticut and Maryland, two patent infringement actions involving the same three patents of respondent and the same accused product; viz., petitioner's "Timex" electric watch. Both actions involve the same issues of patent validity and infringement.

The two are: (1) the present action in Connecticut brought by petitioner for a declaratory judgment on respondent's patents, in which respondent has counterclaimed for full relief; and (2) an earlier (by twelve days) action in Maryland by respondent against The Read Drug and Chemical Co. ("Read's"), a retail customer of petitioner.

The Connecticut district is one of the districts in which petitioner was subject to suit on respondent's patents under the applicable venue statute (28 U. S. Code, § 1400).

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* An agreed statement of facts was carried largely into the Findings (Appendix hereto, pp. 6a-11a); but the Findings omit agreed facts which petitioner relied upon and which appear at pages 11a-12a of the Appendix hereto.

Read's is one of some 1500 retailers of the accused watch and had purchased only some 290 of them over a period of sixteen months before the action. Read's quite obviously has no material stake in the controversy. No other retailer has been sued.

It was stipulated that "The action against the Read Drug Company was not commenced in Maryland because of a wish or need to bring an action against Read in particular, Read not being a retailer whose sales had any effect materially different from that of the sales of the accused watch by other retailers of the same substantial size in the United States; but, Hamilton further states, was brought against Read in particular as the largest and most financially responsible retailer available in Baltimore, in order to have an action against a financially substantial retailer in the convenient Baltimore forum; and was brought with the knowledge that U. S. Time could intervene or take over the defense of the action against its customer in the selected forum" (Appendix, p. 12a).

Petitioner has not intervened in or taken control of the defense in the Maryland action against Read's; but Read's has filed a consent to abide by any final decision on the patent issues in the Connecticut action.

Petitioner sought an order restraining respondent from further prosecution of the "customer suit" in Maryland pending final decision herein. The district court denied the motion. Rehearing was denied. On appeal, the denial of the restraint was affirmed as being well within the district court's discretionary power.*

Neither court below gave any weight or effect to, or even mentioned, the three major factors urged by petitioner, viz., (1) that what is dominant here is not any private interest or forum preference of a party but rather

* Since that time, the District Court in Maryland has denied a motion by Read's to stay that action. The opinion is not yet reported and is not of record herein.

the interest of the courts and the public in the "conservation of judicial resources and comprehensive disposition of litigation"*, by avoiding where possible an "unnecessary and wasteful duplication of litigation"**; and (2) that these factors warrant the restraint sought because respondent's action against the retailer is an unnecessary one, incapable of disposing of the controversy, and its further prosecution would be a wasteful duplication since the present action, which must proceed in any event, will dispose of the controversy comprehensively. That is so because, if petitioner prevails, respondent will be barred by the rule of *Kessler* v. *Eldred*, 206 U. S. 285 (1907), from prosecuting any of petitioner's customers; and if respondent prevails it can halt all sale of the watch at the source and can get its full compensatory damages from petitioner for every watch sold, whether through Read's or any of the hundreds of other retailers.

The Court of Appeals relied instead upon some of the factors of private interest or desire urged by respondent against the restraint, namely, the fact that respondent had a right to sue Read's (just as it did to sue any seller or user of the watch), the fact that respondent's action in Maryland was the earlier brought, and the fact that no injustice would be done to petitioner by letting the Maryland action proceed, and no harassment was shown. (Appendix, p. 3a).

It seems clear that both courts below were strongly influenced by a *dictum**** in *Jos. Bancroft & Sons* v. *Spunize*

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* *Kerotest Mfg. Co.* v. *C-O-Two Fire Equipment Co.*, 342 U. S. 180, at 183 (1952).

** *Telephonics Corp. et al.* v. *Lindly & Company, Inc.*, 291 F. 2d 445, at 447 (2 Cir. 1961); and cf. *Bechik Products, Inc.* v. *Flexible Products, Inc.*, 225 F. 2d 603, at 607 (2 Cir., 1955).

*** It was *dictum* because the denial of a restraint there was well justified by the fact that the action sought to be restrained was a necessary one on the part of the patent owner and the declaratory action in which the restraint was sought was incapable of disposing of the controversy, as the Court recognized.

Corp. of America, 268 F. 2d 522, at 524 (2 Cir., 1959). The district court said that that case staked out the boundary lines for the exercise of its discretion (Appendix, p. 4a); and the Court of Appeals cited that case, although without comment (*id.*, p. 3a). The *dictum* is that "There should be no restraint of the prior suit by injunction 'except to prevent a manifest wrong or injustice' . . . and then only if 'the same parties as well as the same issues are involved in the two actions'" (citing cases). Taken at face value, this *dictum* creates a rigid rule of priority, forbidding in all circumstances the restraint of an earlier action for all situations of non-identical parties and, for situations of identical parties, a rule with but one exception apparently based on a private wrong or injustice rather than on anything having to do with the conservation of judicial resources and comprehensive disposition of litigation.

Reasons For Granting the Writ

Review by this Court is warranted for three reasons, viz.,

1) The question presented is an important one because it goes to the core of a problem in the administration of the work of the lower courts which this Court has already recognized as being important and as being one which warrants this Court's continuing attention and availability for corrective review.

2) The question has a further importance because it goes also to the long-recognized problem of the "customer suit" in the administration of the patent system. The decision below sanctions and will encourage the already too common use of the "customer suit" for ulterior purposes such as "forum shopping", and leaves to the district courts no room for application of this Court's criteria as a check on that abuse of the judicial process.

3) There is direct conflict between the decision below and two district court decisions in the Sixth Circuit, as well as an earlier district court decision in the Second Circuit.

1. The recognized importance of the problem involved and the need for corrective review.

The importance of the problem of multiple litigation in coordinate federal courts was recognized by this Court in *Kerotest Mfg. Co.* v. *C-O-Two Fire Equipment Co.*, 342 U. S. 180 (1952). The Court there reviewed and affirmed a decision of the Court of Appeals for the Third Circuit which accorded an area of discretion to the district courts and relaxed the rigid rule of priority established by earlier decisions of that Court as a criterion for determining which of two concurrent actions should be restrained. The writ was granted there "Inasmuch as a question of importance to the conduct of multiple litigation in the federal judicial system was involved . . ."; and it was noted that "The Federal Declaratory Judgments Act, facilitating as it does the initiation of litigation by different parties to many-sided transactions, has created complicated problems for coordinate courts" (*id.*, 183).

The present case involves the same problem, although in a fact situation not directly presented in *Kerotest*. But the fact situation here is one of at least the same frequency of occurrence, and the result here is of at least equally wide consequence.

In *Kerotest*, the litigation started, as here, with a customer suit (there, in Illinois); but because of the subsequent joinder of the manufacturer in that action, following the manufacturer's declaratory action against the patent owner in Delaware, the eventual fact situation was one in which the manufacturer and the patent owner were parties to both actions. Specifically then it came down to a question of which action should be stayed, since either action could dispose of the controversy between the prime

antagonists; whereas here the Connecticut action must proceed anyway, being the only action between the prime antagonists, and the specific question is whether the needless customer suit shall also proceed concurrently. But from the standpoint of "wise judicial administration" (*Kerotest*, at p. 183), both fact situations present the same basic problem and call for decision in accordance with the same criteria. Review here is equally warranted in order to clarify and to effectuate those criteria.

This Court emphasized in *Kerotest* the need to leave to the lower courts an "ample degree of discretion" in solving this problem, and it expressed its confidence in "disciplined and experienced judges"; but in doing so it also set the guide lines for the exercise of that discretionary power by saying that "Wise judicial administration, giving regard to conservation of judicial resources and comprehensive disposition of litigation, does not counsel rigid mechanical solution of such problems" (*id.*, 183).

Those criteria of decision—the conservation of judicial resources and the comprehensive disposition of litigation, without rigid rules—are the basic criteria which reflect the interest of the courts themselves and of the public, and which call for confining litigation to a single comprehensive action where that is possible without substantial impairment of any interest of the claimant that makes multiple litigation necessary, even though undesirable.*

The courts below in this case did not weigh those two interests, public and private, and gave no heed to the public interest which this Court directed the lower courts to heed. Dominance was given instead to circumstances of

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* The need for weighing these opposing interests was recognized in *Bechik Products, Inc. v. Flexible Products, Inc.*, 225 F. 2d 603, at 607 (2 Cir., 1955), where the balance was found to warrant the restraint. The same weighing of those interests clearly bars the restraint in a situation such as that of *Bancroft* (*supra*, p. 6), just as it calls for the restraint on the different facts here.

private interest or desire, and implicitly, by the reliance on the *Bancroft dictum (supra*, p. 6), effect was given to the rigid rule of priority which was rejected in *Kerotest*.

Even apart from the reliance on *Bancroft*, the decision below has the effect of creating a "rigid mechanical solution". Thus, whenever a patent owner opens his campaign by a customer suit, instead of by suit against the prime supplier of the accused product who is his real antagonist, there will almost always be present (and the patent owner can see to it that they are) the three factors cited in the opinion of the Court of Appeals below as justifying a denial of the restraint. That customer suit will be earlier, it will be brought as a matter of right created by the patent itself, and there usually will be no demonstrable "injustice" to the prime supplier of the accused product. The result of the decision below therefore will be to give patent owners an easily filled prescription for resort to a needless customer suit, with resulting needless duplication of judicial effort, which the district courts will not feel free to restrain.

Further, in *Kerotest*, this Court noted that if the lower courts do not properly exercise the discretionary power there given to them, "there is always the opportunity for corrective review by a Court of Appeals and ultimately by this Court" (*id.*, 185). This was said in disposing of the fear expressed by the petitioner there that the decision under review would "encourage owners of weak patents to avoid real tests of their patents' validity by successive suits against customers in forums inconvenient for the manufacturers, or selected because of greater hospitality to patents" (*id.*, 184, 185). The import of the Court's discussion is that although generally the lower courts can and should be trusted to deal wisely with such problems, and with any abuses, corrective review by this Court would be available in the rare case of failure to do so.

Our submission is that this is such a case because of (a) the clear failure below to give any heed to the criteria laid down by this Court, (b) the implicit adherence below to a rigid rule of priority as a criterion of decision, and (c) the inevitable wide impact of the decision below in sanctioning the use of a customer suit, not to secure needed relief against the customer, but in an attempt to choose the forum for litigation of the patent controversy.

2. The importance of the "customer suit" problem.

The question presented here takes on further importance because the action here sought to be restrained is the "customer suit" in its naked form.

It has long been recognized that the patent system contains the possibility of abuse in that the patent gives a right of action against any maker, seller or user and therefore a right that can be invoked against someone such as a retailer who has no real part in the supposed infringement, no real stake in the controversy and often no means of defending himself. In *Maytag Co.* v. *Meadows Mfg. Co.*, 35 F. 2d 403, at 410 (7 Cir., 1929), the Court said that "Public policy favors the rule" that patent litigation should be against the manufacturer and that suits against his customers should be restrained meanwhile. In numerous cases, customer suits have been restrained, as in *Bechik, supra*, pp. 5, 8, where the Court of Appeals for the Second Circuit expressly recognized that the exercise of this patent right is subject to judicial restraint.

Yet here a quite needless customer suit has been condoned and the practice of bringing such suits will surely be encouraged unless this Court reviews the decision below and imposes limits on a plainly odious abuse of both the patent right and the right of access to the courts. Litigants no doubt will shop for forum as long as different courts

exhibit different degrees of hospitality to a particular type of action; but it is unseemly for the courts themselves to condone the use of a right of access to the courts, not really to protect the property for which that access is given, but to make a move in a forum-shopping game. That is an abuse of the right of access to the courts. The courts should not assist the game, but should look to their own interest in conserving their resources. A decision of opposite tendency warrants this Court's review.

3. Conflict of decision.

The decision of Senior District Judge Starr in *Sortex Company of North America, Inc., et al.* v. *Mandrel Industries, Inc.*, 226 F. Supp. 995 (W. D. Mich., S. D. February 27, 1964), is in direct conflict with the decision below, as are the decisions in *Squeez-A-Puke Corp.* v. *Stiller et al.*, 149 F. Supp. 60 (N. D. Ohio, E. D., 1957), and *Delamere Co.* v. *Taylor-Bell Co.*, 199 F. Supp. 55 (S. D., N. Y., 1961), which are discussed and followed in Judge Starr's opinion. Judge Starr gave full heed to the criteria set by this Court in *Kerotest, supra* (see 226 F. Supp. at 1000), in contrast to the opinion of the court below in this case. He saw that the duplication of litigation was needless and would be wasteful, that a comprehensive disposition of the controversy could be had in the action between the manufacturer and the patent owner, and that the priority of the customer suit was a relatively unimportant factor.*

We note the decision in the Seventh Circuit, *Sundstrand Corp.* v. *American Brake Shoe Co.*, 315 F. 2d 273 (7 Cir., 1963), which denied restraint of a customer suit.

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* Cf. *Turbo Mach. Co.* v. *Proctor & Schwartz, Inc.*, 204 F. Supp. 39, at 41 (E. D. Pa. 1962), where a subsequent customer suit was restrained for the same reason.

These decisions show that the problem is a recurring one, that the lower courts are in conflict and that review by this Court is needed to effectuate the admonitions of the *Kerotest* opinion and to bring about a resolution of the problem by resort to proper and uniform criteria.

Respectfully,

JOHN HOXIE,
Attorney for Petitioner.

New York N. Y., April 28, 1964.